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The Threat to CAFTA

The United States has long championed the cause of hemispheric free trade, envisioning a tariff-free zone stretching from the Arctic to the tip of South America. Yet thanks to the most protectionist, partisan Congress in years and an administration that seems gripped by inertia on the trade front, Washington is having trouble getting a small deal done with a handful of poor countries in Central America.

The Bush administration signed the Central American free-trade agreement (CAFTA) in May of 2004 after a year of negotiations. The pact would remove most of the remaining tariffs and quotas on trade with Honduras, Nicaragua, Costa Rica, El Salvador and Guatemala. The Caribbean nation of the Dominican Republic also joined. The U.S. Senate finally approved the deal last week by a vote of 54-45, but CAFTA faces a much more difficult trip through the House of Representatives and may well be defeated.

The reason: an ugly mood of protectionism, the weak leadership of President George W. Bush on the trade file, and a Democratic opposition determined to hand the administration a defeat of any kind. It is not the first time domestic U.S. politics has played havoc with trade liberalization, particularly under Mr. Bush. The President talks the free-trade talk, but he has never made it a priority. And he has been more protectionist in his actions, ranging from increased farm subsidies to special protection for steel, than any previous occupant of the White House in the past quarter-century.

Groundbreaking initiatives such as the North American free-trade agreement and the normalizing of trade relations with China won broad, bipartisan support from Congress. Democrats were eager to appeal to moderate voters and win business backing by showing their independence from organized labour, farm lobbies and other foes of free trade. Now, though, the Democrats are regressing, and plenty of Republicans are raising protectionist banners too.

CAFTA raises some legitimate concerns over environmental and labour standards, but the Bush administration has promised financial assistance for governments to upgrade and enforce workplace and environmental laws. Although that may take some time, the benefits of removing most of the remaining tariffs and quotas on trade between the United States and Central America far outweigh any risks. Freer trade will boost economic growth, reduce consumer costs, increase investment, raise tax revenues and make rules more transparent. The prospect of higher living standards and decent jobs will mean much less migration of people and capital and will improve political stability in the region.

This is all to the benefit of the United States, which stands to gain the most from CAFTA in any case. About 80 per cent of its imports from the CAFTA Six already enter the United States duty-free under previous unilateral U.S. measures. With CAFTA, high tariffs on such important U.S. industrial exports as pharmaceuticals and telecom equipment will come tumbling down while protection for patents and other intellectual property will go up.

The agreement is far from perfect. The powerful U.S. sugar lobby, for instance, has succeeded in limiting imports of that important commodity to less than 2 per cent of U.S. needs after 15 years. But CAFTA is too valuable to be derailed by knee-jerk protectionism or petty political partisanship.